

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT
NEW SHARON, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------|---|---------------------|
| <u>Board of Education</u> | | |
| (Before September 2003 Election) | | |
| Carrie Ferguson | President | 2003 |
| Jimmah White | Vice President | 2004 |
| Mike Bair | Board Member | 2004 |
| Duane White | Board Member | 2005 |
| Marvin Knoot | Board Member (Resigned August 18, 2003) | 2005 |
| Mike Boyle | Board Member (Appointed) | 2004 |
| <u>Board of Education</u> | | |
| (After September 2003 Election) | | |
| Carrie Ferguson | President | 2006 |
| Jimmah White | Vice President | 2004 |
| Mike Bair | Board Member | 2004 |
| Duane White | Board Member | 2005 |
| Mike Boyle | Board Member (Appointed) | 2004 |
| <u>School Officials</u> | | |
| Randy Moffit | Superintendent | 2004 |
| Gloria Bartlett | District Secretary/Treasurer | 2004 |
| Sue Seitz | Attorney | Indefinite |

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
North Mahaska Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of North Mahaska Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of North Mahaska Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, North Mahaska Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2004 on our consideration of North Mahaska Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 14 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Mahaska Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
September 10, 2004

North Mahaska Community School District

Management's Discussion and Analysis

For the Year Ending June 30, 2004

This section of the North Mahaska Community School District's financial report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2004. The analysis focuses on school district financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

Financial Highlights

- The General Fund June 30, 2004, fund balance decreased to \$508,141 from the June 30, 2003, fund balance of \$571,749. The decrease was due to an increase in expenditures and the state's 2.25% across the board cut.
- The District's tax levy decreased by \$0.61 from \$12.29 to \$11.68. The decrease in the tax levy was due to the use of excess one-cent option sales tax (SILO) funds used to offset property taxes.
- Special education posted a deficit for 2003-2004 of \$20,612. This is the first time in several years that there has been a deficit in special education.
- Due to declining enrollment, the District was in "budget guarantee" for fiscal 2003-04. Despite the state setting allowable growth at 2%, the District had to apply to the state to guarantee funding at a level no less than what was in place for 2002-03.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements (district-wide and fund statements) including notes to the financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The statement of net assets and statement of activities provide information on a district-wide basis. The statements present an aggregate view of the District's finances. District-wide statements contain useful long-term information as well as information for the just-completed fiscal year.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary funds statements offer short- and long- term financial information about the activities the District operates like businesses, such as food services.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

District-Wide Financial Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those provided by private sector companies. The statement of net assets includes all of the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's overall financial position. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall financial condition of the District additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities should be considered.

In the District-wide financial statements, the District's activities are divided into two categories:

- Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.
- Business-type activities: The District charges fees to help it cover the costs of certain services it provides. The District's food service program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has three kinds of funds:

- Governmental funds: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. Internal service funds, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one internal service fund, the medical reimbursement fund.

- **Fiduciary funds:** The District is the trustee, of fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Assets. Figure A-3 below provides a summary of the District's net assets for the year ending June 30, 2004. In future years a comparison will be made with the previous year's totals.

Figure A-3

| | 2004 Governmental Activities | 2004 Business-Type Activities | 2004 Total |
|--|------------------------------------|-------------------------------------|------------------|
| Current and Other Assets | 2,925,060 | 38,393 | 2,963,453 |
| Capital Assets | 4,972,599 | 50,943 | 5,023,542 |
| Total Assets | 7,897,659 | 89,336 | 7,986,995 |
| Long Term Debt Outstanding | 3,050,000 | 0 | 3,050,000 |
| Other Liabilities | 1,716,051 | 1,170 | 1,717,221 |
| Total Liabilities | 4,766,051 | 1,170 | 4,767,221 |
| Net Assets | | | |
| Invested In Capital Assets, Net of related debt | 1,922,599 | 50,943 | 1,973,542 |
| Restricted | 700,868 | 0 | 700,868 |
| Unrestricted | 508,141 | 37,223 | 545,364 |
| Total Net Assets | 3,131,608 | 88,166 | 3,219,774 |

Capital assets will increase due to the projects under construction with proceeds from the local option one-cent sales and services tax. Over \$200,000 in projects either has been completed or is in progress since the inception of the local option tax in 2001-2002.

Figure A-4

| | 2004 Governmental Activities | 2004 Business-Type Activities | 2004 Total |
|---|------------------------------------|-------------------------------------|------------------|
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | 449,279 | 98,932 | 548,211 |
| Operating grants, contributions and, restricted interest | 493,724 | 87,839 | 581,563 |
| Capital grants, contributions and restricted interest | 0 | 0 | 0 |
| General revenues: | | | |
| Property Tax | 1,794,077 | 0 | 1,794,077 |
| Local option sales & service tax | 437,529 | 0 | 437,529 |
| Unrestricted state grants | 1,650,475 | 0 | 1,650,475 |
| Unrestricted investment earnings | 21,609 | 137 | 21,746 |
| Other | 2,195 | 0 | 2,195 |
| Total Revenues | 4,848,888 | 186,908 | 5,035,796 |
| Program Expenses: | | | |
| Governmental activities | | | |
| Instruction | 2,937,530 | 0 | 2,937,530 |
| Support Services | 1,171,872 | 0 | 1,171,872 |
| Non-instructional programs | 5,000 | 207,833 | 212,833 |
| Other expenses | 432,121 | 0 | 432,121 |
| Total Expenses | 4,546,523 | 207,833 | 4,754,356 |
| Change in net assets | 302,365 | (20,925) | 281,440 |

Property Tax and unrestricted state grants account for 68% of the total revenue. Instruction and support services account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,848,888 and expenses were \$4,546,523. In a difficult budget year with a 2.25% state cut, the District saw an increase in total net assets of \$302,365. The increase is due to maintaining capital asset levels while debt balances have decreased and the collection of local option sales and service tax monies which increased current assets.

Business Type Activities

Revenues for business type activities were \$186,908 and expenses were \$207,833. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal, and state reimbursements and investment income.

During the 2004-2005 school year, the District will increase meal prices for the first time in seven years. This increase will result in increased revenue to the School Nutrition Fund to meet rising expenses.

Individual Fund Analysis

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,230,329 which is \$21,313 less than the balance of \$1,251,642 at the beginning of the year.

The individual fund analysis basically goes through each of the major school funds and tries to put in simple terms where they are and where we may want to go with them during the coming year. Please keep in mind that it is a snap shot picture of finances on June 30 of each year. The figures represent our modified accrual position on June 30, 2003, compared with where we were on June 30, 2004. You can find these figures in the June reports on expenditures, revenues, and fund balances. North Mahaska Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund Highlights

General Operating Fund

In the General Fund, we had revenues of \$3,874,649. We had expenditures of \$3,938,257. Therefore, we ended the year \$63,608 in the red. We started the year with a balance of \$571,749, so we ended the year with a balance of \$508,141. Although we were expecting a shortfall this year, the state's 2.5% (later trimmed to 2.25%) across the board cut made the deficit about \$45,000 more than anticipated.

Management Fund

In the Management Fund, we expended \$57,251 and had revenues of \$50,918 meaning we spent \$6,333 more than we received. Because we started the year with \$46,701, we ended the year with a balance of \$40,368. Approximately \$60,000 will be added to this fund through the Management Levy passed for this year's budget. This is an increase over past years to cover the rising cost of insurance and to make up for the ag land roll back. Money from this fund is spent on insurance (other than employee health) and unemployment claims (none in 03-04). The balance in this account covers most of the insurance premiums that occur early in the school year, but it will go in the red until October tax receipts arrive.

Physical Plant and Equipment Levy (PPEL)

In PPEL we expended \$132,290 and received \$51,617 meaning we were \$80,673 in the red. Since we started the year with \$117,310, we finished with a balance of \$36,637. The decrease was due to necessary bus purchases which were needed to keep the fleet up to date.

Capital Projects

We started the year with a balance of \$410,820 in all capital projects funds. We have expended \$319,963 on various projects and on debt service. We have received \$444,626 during the past year. The balance is now \$535,483 (an increase of \$124,663). The increase is due mainly to collections of local option sales and service tax monies which have not been expended yet.

Activity Fund

The activity fund is a conglomerate of many different minor funds from athletics and music to class treasuries. The fund is in good condition over all. The beginning balance last July was \$51,269. At the end of June, it was \$73,270. The balance can fluctuate quite a bit depending on what projects are going on and when money is being paid out. This is not a fund in which you are trying to make money, but you like to keep a healthy balance to cover cash flow during the year. Most of the accounts are revolving in nature in that organizations use them for their activities. In the athletic part of the budget, some sports ran in the red, but others ran in the black. However, the athletic fund, when taking all sports in consideration, finished in the black. There were some successful fund raisers and some good attendance this past year that helped maintain a good balance.

Proprietary Fund Highlights

Nutrition Fund

The nutrition fund started the year with a balance of \$109,091. Revenues for the year totaled \$186,908 while expenditures totaled \$207,833 leaving a balance of \$88,166. Both revenues and expenditures were up from last year. This account has been doing well and supporting itself. It is still in good shape, but the increase in prices mentioned previously is certainly warranted by the \$20,925 drop in the balance. The decrease in balance is due mainly to the increasing cost associated with running the nutrition program.

Budgetary Highlights

The District's receipts were \$46,923 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Capital Assets

At June 30, 2004, the District had invested \$5,023,542, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$197,783.

The original cost of the District's capital assets was \$7,166,090. Of this amount \$165,918 was in the Proprietary, School Lunch Fund.

Long-Term Debt

At June 30, 2004, the District had \$3,050,000 in general obligation bonds. This represents a decrease of approximately 8% from last year. Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Factors Bearing on the District's Future

The District remains in sound financial condition at this point. The one cent option sales tax will continue to be a big help for many projects. The general fund status has some concerns because of the uncertain status of the state, the rising costs of insurance, and decreasing enrollment, however, the general fund carry over is still healthy for a district of our size and budget.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gloria Bartlett, Board Secretary, or Randy Moffit, Superintendent, North Mahaska Community School, P.O. Box 89, New Sharon, Iowa 50207.

Basic Financial Statements

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|------------------|
| Assets | | | |
| Cash and pooled investments | \$ 1,142,350 | \$ 36,587 | \$ 1,178,937 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 21,962 | - | 21,962 |
| Succeeding year | 1,637,294 | - | 1,637,294 |
| Accrued interest | 2,088 | - | 2,088 |
| Accounts | 19,652 | - | 19,652 |
| Due from other governments | 101,714 | - | 101,714 |
| Inventories | - | 1,806 | 1,806 |
| Capital assets, net of accumulated depreciation (note 4) | 4,972,599 | 50,943 | 5,023,542 |
| Total assets | 7,897,659 | 89,336 | 7,986,995 |
| Liabilities | | | |
| Accounts payable | 17,283 | 1,170 | 18,453 |
| Salaries and benefits payable | 24,190 | - | 24,190 |
| Accrued interest payable | 21,320 | - | 21,320 |
| Deferred revenue: | | | |
| Succeeding year property tax | 1,637,294 | - | 1,637,294 |
| Compensated absences | 15,964 | - | 15,964 |
| Long-term liabilities (note 5): | | | |
| Portion due within one year: | | | |
| Bonds payable | 285,000 | - | 285,000 |
| Portion due after one year: | | | |
| Bonds payable | 2,765,000 | - | 2,765,000 |
| Total liabilities | 4,766,051 | 1,170 | 4,767,221 |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 1,922,599 | \$ 50,943 | \$ 1,973,542 |
| Restricted for: | | | |
| Management levy | 40,368 | - | 40,368 |
| Physical plant and equipment levy | 36,637 | - | 36,637 |
| Other special revenue purposes | 73,270 | - | 73,270 |
| Debt service | 15,110 | - | 15,110 |
| Capital projects | 535,483 | - | 535,483 |
| Unrestricted | 508,141 | 37,223 | 545,364 |
| Total net assets | \$ <u>3,131,608</u> | \$ <u>88,166</u> | \$ <u>3,219,774</u> |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

| Functions/Programs | Expenses | Program Revenues | | |
|---|------------------|----------------------|---|---|
| | | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 1,910,773 | \$ 165,009 | \$ 175,608 | \$ - |
| Special instruction | 506,763 | 40,743 | 128,446 | - |
| Other instruction | 519,994 | 242,823 | 12,636 | - |
| | <u>2,937,530</u> | <u>448,575</u> | <u>316,690</u> | <u>-</u> |
| Support services: | | | | |
| Student services | 103,027 | - | - | - |
| Instructional staff services | 45,545 | - | - | - |
| Administration services | 445,836 | - | - | - |
| Operation and maintenance of plant services | 315,820 | 704 | - | - |
| Transportation services | 261,644 | - | 21,579 | - |
| | <u>1,171,872</u> | <u>704</u> | <u>21,579</u> | <u>-</u> |
| Non-instructional programs | <u>5,000</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other expenditures: | | | | |
| Facilities acquisition | 11,199 | - | - | - |
| Long-term debt interest and fiscal charges | 133,198 | - | - | - |
| AEA flowthrough | 155,455 | - | 155,455 | - |
| Depreciation (unallocated) * | 132,269 | - | - | - |
| | <u>432,121</u> | <u>-</u> | <u>155,455</u> | <u>-</u> |
| Total governmental activities | 4,546,523 | 449,279 | 493,724 | - |
| Business-Type Activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | <u>207,833</u> | <u>98,932</u> | <u>87,839</u> | <u>-</u> |
| Total | \$ 4,754,356 | \$ 548,211 | \$ 581,563 | \$ - |

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|----------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ (1,570,156) | \$ - | \$ (1,570,156) |
| (337,574) | - | (337,574) |
| (264,535) | - | (264,535) |
| (2,172,265) | - | (2,172,265) |
| (103,027) | - | (103,027) |
| (45,545) | - | (45,545) |
| (445,836) | - | (445,836) |
| (315,116) | - | (315,116) |
| (240,065) | - | (240,065) |
| (1,149,589) | - | (1,149,589) |
| (5,000) | - | (5,000) |
| (11,199) | - | (11,199) |
| (133,198) | - | (133,198) |
| - | - | - |
| (132,269) | - | (132,269) |
| (276,666) | - | (276,666) |
| (3,603,520) | - | (3,603,520) |
| - | (21,062) | (21,062) |
| (3,603,520) | (21,062) | (3,624,582) |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 10)

Net assets end of year

* = This amount excludes the depreciation that is included
in the direct expense of the various programs.

See notes to financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|-----------------------------|---------------------|
| Governmental Activities | Business-Type Activities | Total |
| \$ 1,560,021 | \$ - | \$ 1,560,021 |
| 184,074 | - | 184,074 |
| 49,982 | - | 49,982 |
| 437,529 | - | 437,529 |
| 1,650,475 | - | 1,650,475 |
| 21,609 | 137 | 21,746 |
| 2,195 | - | 2,195 |
| 3,905,885 | 137 | 3,906,022 |
| 302,365 | (20,925) | 281,440 |
| 2,829,243 | 109,091 | 2,938,334 |
| <u>\$ 3,131,608</u> | <u>\$ 88,166</u> | <u>\$ 3,219,774</u> |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

| | General | Capital Projects | Nonmajor Governmental Funds | Total Governmental Funds |
|---|--------------|---------------------|-----------------------------------|--------------------------------|
| <hr/> | | | | |
| Assets | | | | |
| Cash and pooled investments | \$ 607,587 | \$ 484,059 | \$ 185,936 | \$ 1,277,582 |
| Receivables: | | | | |
| Property tax: | | | | |
| Current year | 18,468 | - | 3,494 | 21,962 |
| Succeeding year | 1,362,718 | - | 274,576 | 1,637,294 |
| Accrued interest | 2,088 | - | - | 2,088 |
| Accounts | 19,652 | - | - | 19,652 |
| Due from other governments | 50,141 | 51,573 | - | 101,714 |
| | <hr/> | | | |
| Total assets | \$ 2,060,654 | \$ 535,632 | \$ 464,006 | \$ 3,060,292 |
| | <hr/> | | | |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Excess of warrants issued over bank balance | \$ 135,232 | \$ - | \$ - | \$ 135,232 |
| Accounts payable | 14,409 | 149 | 2,725 | 17,283 |
| Salaries and benefits payable | 24,190 | - | - | 24,190 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 1,362,718 | - | 274,576 | 1,637,294 |
| Compensated absences | 15,964 | - | - | 15,964 |
| Total liabilities | 1,552,513 | 149 | 277,301 | 1,829,963 |
| | <hr/> | | | |
| Fund balance: | | | | |
| Reserved for: | | | | |
| State grants | 1,478 | - | - | 1,478 |
| Debt service | - | - | 36,430 | 36,430 |
| Unreserved: | | | | |
| Designated for cash flow | 180,000 | - | - | 180,000 |
| Reported in nonmajor Special | | | | |
| Revenue Funds | - | - | 150,275 | 150,275 |
| Undesignated | 326,663 | 535,483 | - | 862,146 |
| Total fund balances | 508,141 | 535,483 | 186,705 | 1,230,329 |
| | <hr/> | | | |
| Total liabilities and fund balances | \$ 2,060,654 | \$ 535,632 | \$ 464,006 | \$ 3,060,292 |
| | <hr/> | | | |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2004

| | |
|--|----------------------------|
| Total fund balances of governmental funds | \$ 1,230,329 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 4,972,599 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | (21,320) |
| Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(3,050,000)</u> |
| Net assets of governmental activities | \$ <u><u>3,131,608</u></u> |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

| | General | Capital Projects | Nonmajor Governmental Funds | Total |
|--|--------------|---------------------|-----------------------------------|--------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 1,508,328 | \$ 437,529 | \$ 284,599 | \$ 2,230,456 |
| Tuition | 165,222 | - | - | 165,222 |
| Other | 54,258 | 7,097 | 244,831 | 306,186 |
| State sources | 1,986,168 | - | 183 | 1,986,351 |
| Federal sources | 158,670 | - | - | 158,670 |
| Total revenues | 3,872,646 | 444,626 | 529,613 | 4,846,885 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 1,901,729 | - | 5,000 | 1,906,729 |
| Special instruction | 506,763 | - | - | 506,763 |
| Other instruction | 287,168 | - | 221,003 | 508,171 |
| | 2,695,660 | - | 226,003 | 2,921,663 |
| Support services: | | | | |
| Student services | 102,877 | - | 150 | 103,027 |
| Instructional staff services | 45,395 | - | 150 | 45,545 |
| Administration services | 437,025 | - | 8,811 | 445,836 |
| Operation and maintenance of plant services | 294,933 | - | 21,050 | 315,983 |
| Transportation services | 206,912 | - | 148,384 | 355,296 |
| | 1,087,142 | - | 178,545 | 1,265,687 |
| Non-instructional programs | - | - | 5,000 | 5,000 |
| Other expenditures: | | | | |
| Facilities acquisition | - | 121,877 | 996 | 122,873 |
| Long term debt: | | | | |
| Principal | - | - | 265,000 | 265,000 |
| Interest and fiscal charges | - | - | 134,523 | 134,523 |
| AEA flowthrough | 155,455 | - | - | 155,455 |
| | 155,455 | 121,877 | 400,519 | 677,851 |
| Total expenditures | 3,938,257 | 121,877 | 810,067 | 4,870,201 |
| Excess (deficiency) of revenues over (under) expenditures | (65,611) | 322,749 | (280,454) | (23,316) |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

| | <u>General</u> | <u>Capital Projects</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|---|-------------------|-----------------------------|--|---------------------|
| Other financing sources (uses): | | | | |
| Sale of equipment | \$ 2,003 | \$ - | \$ - | \$ 2,003 |
| Interfund transfers in | - | - | 198,086 | 198,086 |
| Interfund transfers out | - | (198,086) | - | (198,086) |
| Total other financing sources (uses) | <u>2,003</u> | <u>(198,086)</u> | <u>198,086</u> | <u>2,003</u> |
| Net change in fund balances | (63,608) | 124,663 | (82,368) | (21,313) |
| Fund balances beginning of year, as restated (note 10) | <u>571,749</u> | <u>410,820</u> | <u>269,073</u> | <u>1,251,642</u> |
| Fund balances end of year | <u>\$ 508,141</u> | <u>\$ 535,483</u> | <u>\$ 186,705</u> | <u>\$ 1,230,329</u> |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ (21,313)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|----------------------|------------------|--------|
| Capital outlays | \$ 245,968 | |
| Depreciation expense | <u>(188,615)</u> | 57,353 |

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 265,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

1,325

Change in net assets of governmental activities \$ 302,365

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2004

| | Enterprise - School Nutrition | Internal Service - Cafeteria Benefits |
|---|-------------------------------------|--|
| Assets | | |
| Cash and cash equivalents | \$ 36,587 | \$ 1,276 |
| Inventories | 1,806 | - |
| Capital assets, net of accumulated depreciation | <u>50,943</u> | <u>-</u> |
| Total assets | <u>89,336</u> | <u>1,276</u> |
| Liabilities | | |
| Accounts payable | <u>1,170</u> | <u>-</u> |
| Net Assets | | |
| Invested in capital assets | 50,943 | - |
| Unrestricted | <u>37,223</u> | <u>1,276</u> |
| Total net assets | <u>\$ 88,166</u> | <u>\$ 1,276</u> |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 Year Ended June 30, 2004

| | Enterprise - School Nutrition | Internal Service - Cafeteria Benefits |
|-------------------------------|-------------------------------------|--|
| Operating revenues: | | |
| Local sources: | | |
| Charges for services | \$ 98,932 | \$ 33,976 |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Non-instructional operations: | | |
| Salaries | 73,376 | - |
| Benefits | 33,549 | - |
| Purchased services | 5,884 | - |
| Supplies | 85,856 | - |
| Depreciation | 9,168 | - |
| Other | - | 33,913 |
| | 207,833 | 33,913 |
| Operating income (loss) | (108,901) | 63 |
| Non-operating revenues: | | |
| Interest on investments | 137 | - |
| State sources | 3,259 | - |
| Federal sources | 84,580 | - |
| Total non-operating revenues | 87,976 | - |
| Change in net assets | (20,925) | 63 |
| Net assets beginning of year | 109,091 | 1,213 |
| Net assets end of year | \$ 88,166 | \$ 1,276 |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year Ended June 30, 2004

| | Enterprise - School Nutrition | Internal Service - Cafeteria Benefits |
|--|-------------------------------------|--|
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 97,056 | \$ - |
| Cash received from miscellaneous operating activities | 1,876 | 33,976 |
| Cash payments to employees for services | (106,925) | - |
| Cash payments to suppliers for goods or services | (69,126) | (33,913) |
| Net cash provided by (used in) operating activities | <u>(77,119)</u> | <u>63</u> |
| Cash flows from non-capital financing activities: | | |
| State grants received | 3,259 | - |
| Federal grants received | 68,222 | - |
| Net cash provided by non-capital financing activities | <u>71,481</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Interest on investments | 137 | - |
| Net increase (decrease) in cash and cash equivalents | (5,501) | 63 |
| Cash and cash equivalents beginning of year | <u>42,088</u> | <u>1,213</u> |
| Cash and cash equivalents end of year | \$ <u><u>36,587</u></u> | \$ <u><u>1,276</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | |
| Operating income (loss) | \$ (108,901) | \$ 63 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 9,168 | - |
| Commodities used | 16,358 | - |
| Decrease in inventories | 5,086 | - |
| Increase in accounts payable | <u>1,170</u> | <u>-</u> |
| Net cash provided by (used in) operating activities | \$ <u><u>(77,119)</u></u> | \$ <u><u>63</u></u> |
| Non-cash investing, capital and financing activities: | | |
| During the year ended June 30, 2004, the District received \$16,358 of federal commodities. | | |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2004

| | Private Purpose Trust |
|-----------------------------|--------------------------|
| | <u>Scholarship</u> |
| Assets: | |
| Cash and pooled investments | \$ <u>276,177</u> |
| Liabilities: | |
| None | <u>-</u> |
| Net assets: | |
| Reserved for scholarships | \$ <u><u>276,177</u></u> |

See notes to financial statements.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2004

| | Private Purpose Trust |
|------------------------------------|--------------------------|
| | <u>Scholarship</u> |
| Additions: | |
| Local sources: | |
| Gifts and contributions | \$ <u>1,200</u> |
| Deductions: | |
| Support services: | |
| Scholarships awarded | 7,000 |
| Loss on value of investments | <u>699</u> |
| Total deductions | <u>7,699</u> |
| Change in net assets | (6,499) |
| Net assets beginning of year | <u>282,676</u> |
| Net assets end of year | \$ <u><u>276,177</u></u> |
| See notes to financial statements. | |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

North Mahaska Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of New Sharon, Iowa, and the agricultural territory in Mahaska and Poweshiek County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, North Mahaska Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. North Mahaska Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Mahaska County Assessor's Conference Board.

B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary funds:

The District's enterprise fund is the School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District's internal service fund is the Cafeteria Benefits Fund. This fund is used to account for the cafeteria benefits program offered by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|-----------------------------------|----------|
| Land | \$ 2,500 |
| Buildings | 2,500 |
| Improvements other than buildings | 2,500 |
| Furniture and equipment: | |
| School Nutrition Fund Equipment | 500 |
| Other furniture and equipment | 2,500 |

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

| Asset Class | Estimated Useful Lives |
|-----------------------------------|------------------------|
| Buildings | 50 years |
| Improvements other than buildings | 20-40 years |
| Furniture and equipment | 5-20 years |

Salaries and Benefits Payable – Payroll and related expenses for hourly employees, which are payable in July, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. The cost of vacation payments expected to be liquidated currently is recorded as a liability of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The District has also designated a portion of its fund balance for cash flow.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 2. Cash and Pooled Investments (continued)

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$375,099 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District also has investments in money market and mutual funds which are stated at a fair value of \$262,978 and are classified as risk category 3, which are investments that are uninsured, and uncollateralized and held by the District or its agent in the District's name.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|-------------------|
| Debt Service | Capital Projects | \$ <u>198,086</u> |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

| | Balance Beginning of Year, as Restated (note 10) | Increases | Decreases | Balance End of Year |
|---|--|------------------|---------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 95,250 * | \$ - | \$ - | \$ 95,250 |
| Capital assets being depreciated: | | | | |
| Buildings | 5,443,083 * | 31,738 | - | 5,474,821 |
| Improvements other than buildings | 506,301 * | 66,292 | - | 572,593 |
| Furniture and equipment | 737,256 * | 147,938 | 27,686 | 857,508 |
| Total capital assets being depreciated | <u>6,686,640</u> | <u>245,968</u> | <u>27,686</u> | <u>6,904,922</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 956,037 | 111,937 | - | 1,067,974 |
| Improvements other than buildings | 350,297 | 24,061 | - | 374,358 |
| Furniture and equipment | 560,310 | 52,617 | 27,686 | 585,241 |
| Total accumulated depreciation | <u>1,866,644</u> | <u>188,615</u> | <u>27,686</u> | <u>2,027,573</u> |
| Total capital assets being depreciated, net | <u>4,819,996</u> | <u>57,353</u> | <u>-</u> | <u>4,877,349</u> |
| Governmental activities capital assets, net | <u>\$ 4,915,246</u> | <u>\$ 57,353</u> | <u>\$ -</u> | <u>\$ 4,972,599</u> |

* = In preparation for implementing Governmental Accounting Standards Board Statement No. 34, the District has increased its capitalization limit to \$2,500. The effects of this change included the removal of \$3,125 of items previously classified as land, \$87 of items previously classified as buildings, and \$957,331 of items previously classified as furniture and equipment. In addition, \$35,978 of items previously classified as furniture and equipment have been reclassified as improvements other than buildings to more accurately reflect the nature of these items. The beginning balances have been adjusted to reflect these changes.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets (continued)

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-------------------|-------------|---------------------------|
| Business-type activities: | | | | |
| Furniture and equipment | \$ 165,918 | \$ - | \$ - | \$ 165,918 |
| Less accumulated depreciation | 105,807 | 9,168 | - | 114,975 |
| Business-type activities capital assets, net | \$ <u>60,111</u> | \$ <u>(9,168)</u> | \$ <u>-</u> | \$ <u>50,943</u> |

Depreciation expense was charged by the District to the following functions:

Governmental activities:

 Instruction:

 Regular

\$ 4,044

 Other

11,823

 Support services:

 Operation and maintenance of plant services

2,837

 Transportation

37,642

56,346

Unallocated depreciation

132,269

Total governmental activities depreciation expense

\$ 188,615

Business-type activities:

 Food service operations

\$ 9,168

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

| | General Obligation Bonds |
|---------------------------|--------------------------------|
| Balance beginning of year | \$ 3,315,000 |
| Additions | - |
| Reductions | <u>265,000</u> |
| Balance end of year | <u>\$ 3,050,000</u> |
| Due within one year | <u>\$ 285,000</u> |

Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2005 | \$ 285,000 | \$ 125,897 | \$ 410,897 |
| 2006 | 285,000 | 116,613 | 401,613 |
| 2007 | 295,000 | 106,472 | 401,472 |
| 2008 | 305,000 | 94,975 | 399,975 |
| 2009 | 320,000 | 82,364 | 402,364 |
| 2010 | 330,000 | 68,381 | 398,381 |
| 2011 | 345,000 | 53,667 | 398,667 |
| 2012 | 355,000 | 37,941 | 392,941 |
| 2013 | 100,000 | 24,530 | 124,530 |
| 2014 | 100,000 | 19,855 | 119,855 |
| 2015 | 110,000 | 14,960 | 124,960 |
| 2016 | 110,000 | 9,598 | 119,598 |
| 2017 | <u>110,000</u> | <u>4,125</u> | <u>114,125</u> |
| Total | <u>\$ 3,050,000</u> | <u>\$ 759,378</u> | <u>\$ 3,809,378</u> |

During the year ended June 30, 2004, the District retired \$265,000 of bonds.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Operating Lease

The District is obligated under a copier equipment lease accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations and therefore are not reflected on the District's financial statements. The agreement provides for monthly payments of \$1,910 during the term of the lease.

The total annual lease payments under the lease agreement are as follows:

| <u>Year Ending June 30,</u> | <u>Copiers</u> |
|---------------------------------|------------------|
| 2005 | \$ 22,920 |
| 2006 | 22,920 |
| 2007 | <u>13,370</u> |
| Total | <u>\$ 59,210</u> |

Total payments under the lease agreement for the year ended June 30, 2004 were \$22,920.

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$140,868, \$142,891, and \$138,969 respectively, equal to the required contributions for each year.

Note 8. Risk Management

North Mahaska Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 8. Risk Management (continued)

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$421,558.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

North Mahaska Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$155,455 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; were implemented during the year June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 10. Accounting Change (continued)

The District-wide financial statements separate the District's programs between business-type and governmental activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

| | Fund | | | |
|---|-------------------|---------------------|-------------------|---------------------|
| | General | Capital Projects | Nonmajor | Total |
| Net assets, June 30, 2003, as previously reported | \$ 558,808 | \$ 410,820 | \$ 269,073 | \$ 1,238,701 |
| GASB Interpretation 6 adjustments | 12,941 | - | - | 12,941 |
| Net assets, July 1, 2003, as restated for governmental funds | <u>\$ 571,749</u> | <u>\$ 410,820</u> | <u>\$ 269,073</u> | 1,251,642 |
| GASB 34 adjustments: | | | | |
| Capital assets, net of accumulated depreciation of \$1,866,644 | | | | 4,915,246 |
| Long-term liabilities: | | | | |
| Bonds | | | | (3,315,000) |
| Accrued interest payable | | | | <u>(22,645)</u> |
| Net assets, July 1, 2003, as restated | | | | <u>\$ 2,829,243</u> |

Required Supplementary Information

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2004

| | Governmental Funds - Actual | Proprietary Fund - Enterprise - Actual | Total Actual | Budgeted Amounts Original and Final | Final to Actual Variance |
|--|-----------------------------------|---|---------------------|---|--------------------------------|
| RECEIPTS: | | | | | |
| Local sources | \$ 2,687,532 | \$ 99,069 | \$ 2,786,601 | \$ 2,667,352 | \$ 119,249 |
| State sources | 1,973,893 | 3,259 | 1,977,152 | 2,148,660 | (171,508) |
| Federal sources | 150,756 | 84,580 | 235,336 | 230,000 | 5,336 |
| Total receipts | 4,812,181 | 186,908 | 4,999,089 | 5,046,012 | (46,923) |
| DISBURSEMENTS: | | | | | |
| Instruction | 2,931,994 | - | 2,931,994 | 3,064,403 | 132,409 |
| Support services | 1,257,021 | - | 1,257,021 | 1,368,516 | 111,495 |
| Non-instructional programs | 5,000 | 192,409 | 197,409 | 238,692 | 41,283 |
| Other expenditures | 678,865 | - | 678,865 | 861,266 | 182,401 |
| Total disbursements | 4,872,880 | 192,409 | 5,065,289 | 5,532,877 | 467,588 |
| Deficiency of receipts under disbursements | (60,699) | (5,501) | (66,200) | (486,865) | 420,665 |
| Other financing sources, net | 3,008 | - | 3,008 | - | 3,008 |
| Deficiency of receipts and other financing sources under disbursements | (57,691) | (5,501) | (63,192) | (486,865) | 423,673 |
| Balance beginning of year | 1,200,041 | 42,088 | 1,242,129 | 1,330,802 | (88,673) |
| Balance end of year | \$ <u>1,142,350</u> | \$ <u>36,587</u> | \$ <u>1,178,937</u> | \$ <u>843,937</u> | \$ <u>335,000</u> |

See accompanying independent auditor's report.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2004

| Governmental Funds | | | |
|--------------------------------------|---------------------|------------------|---------------------|
| | Cash | Accrual | Modified |
| | Basis | Adjust- ments | Accrual Basis |
| Revenues | \$ 4,812,181 | \$ 34,704 | \$ 4,846,885 |
| Expenditures | 4,872,880 | (2,679) | 4,870,201 |
| Net | (60,699) | 37,383 | (23,316) |
| Other financing sources (uses) | 3,008 | (1,005) | 2,003 |
| Beginning fund balances, as restated | 1,200,041 | 51,601 | 1,251,642 |
| Ending fund balances | <u>\$ 1,142,350</u> | <u>\$ 87,979</u> | <u>\$ 1,230,329</u> |
| Proprietary Fund | | | |
| | Enterprise | | |
| | Cash | Accrual | Accrual |
| | Basis | Adjust- ments | Basis |
| Revenues | \$ 186,908 | \$ - | \$ 186,908 |
| Expenses | 192,409 | 15,424 | 207,833 |
| Net | (5,501) | (15,424) | (20,925) |
| Beginning net assets | 42,088 | 67,003 | 109,091 |
| Ending net assets | <u>\$ 36,587</u> | <u>\$ 51,579</u> | <u>\$ 88,166</u> |

See accompanying independent auditor's report.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

| | Special Revenue | | | | |
|-----------------------------------|--------------------|---------------------|--|-------------------|-------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Debt Service | Total |
| Assets | | | | | |
| Cash and pooled investments | \$ 40,016 | \$ 75,726 | \$ 36,016 | \$ 34,178 | \$ 185,936 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Current year | 621 | - | 621 | 2,252 | 3,494 |
| Succeeding year | 54,526 | - | 41,478 | 178,572 | 274,576 |
| Total assets | <u>\$ 95,163</u> | <u>\$ 75,726</u> | <u>\$ 78,115</u> | <u>\$ 215,002</u> | <u>\$ 464,006</u> |
| Liabilities and Fund Equity | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 269 | \$ 2,456 | \$ - | \$ - | \$ 2,725 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 54,526 | - | 41,478 | 178,572 | 274,576 |
| Total liabilities | <u>54,795</u> | <u>2,456</u> | <u>41,478</u> | <u>178,572</u> | <u>277,301</u> |
| Fund equity: | | | | | |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Debt service | - | - | - | 36,430 | 36,430 |
| Unreserved: | | | | | |
| Undesignated | 40,368 | 73,270 | 36,637 | - | 150,275 |
| Total fund equity | <u>40,368</u> | <u>73,270</u> | <u>36,637</u> | <u>36,430</u> | <u>186,705</u> |
| Total liabilities and fund equity | <u>\$ 95,163</u> | <u>\$ 75,726</u> | <u>\$ 78,115</u> | <u>\$ 215,002</u> | <u>\$ 464,006</u> |

See accompanying independent auditor's report.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2004

| | Special Revenue | | | | Total |
|--|--------------------|---------------------|--|-----------------|------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Debt Service | |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 50,694 | \$ - | \$ 49,949 | \$ 183,956 | \$ 284,599 |
| Other | 192 | 243,004 | 1,635 | - | 244,831 |
| State sources | 32 | - | 33 | 118 | 183 |
| Total revenues | 50,918 | 243,004 | 51,617 | 184,074 | 529,613 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | 5,000 | - | - | - | 5,000 |
| Other instruction | - | 221,003 | - | - | 221,003 |
| Support services: | | | | | |
| Student services | 150 | - | - | - | 150 |
| Instructional staff services | 150 | - | - | - | 150 |
| Administration services | 8,811 | - | - | - | 8,811 |
| Operation and maintenance of plant services | 21,050 | - | - | - | 21,050 |
| Transportation services | 17,090 | - | 131,294 | - | 148,384 |
| Non instructional programs | 5,000 | - | - | - | 5,000 |
| Other expenditures: | | | | | |
| Facilities acquisition | - | - | 996 | - | 996 |
| Long term debt: | | | | | |
| Principal | - | - | - | 265,000 | 265,000 |
| Interest and fiscal charges | - | - | - | 134,523 | 134,523 |
| Total expenditures | 57,251 | 221,003 | 132,290 | 399,523 | 810,067 |
| Excess (deficiency) of revenues over (under) expenditures | (6,333) | 22,001 | (80,673) | (215,449) | (280,454) |
| Other financing sources | | | | | |
| Interfund transfers in | - | - | - | 198,086 | 198,086 |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2004

| | <u>Special Revenue</u> | | | | |
|---|------------------------|------------------|------------------|------------------|-------------------|
| | <u>Management</u> | <u>Student</u> | <u>Physical</u> | <u>Debt</u> | |
| | <u>Levy</u> | <u>Activity</u> | <u>Plant and</u> | <u>Service</u> | <u>Total</u> |
| | | | <u>Equipment</u> | | |
| | | | <u>Levy</u> | | |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | \$ (6,333) | \$ 22,001 | \$ (80,673) | \$ (17,363) | \$ (82,368) |
| Fund balances beginning of year | 46,701 | 51,269 | 117,310 | 53,793 | 269,073 |
| Fund balances end of year | <u>\$ 40,368</u> | <u>\$ 73,270</u> | <u>\$ 36,637</u> | <u>\$ 36,430</u> | <u>\$ 186,705</u> |

See accompanying independent auditor's report.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|-------------------------|---------------------------------|----------|--------------|---------------------------|
| Change | \$ - | \$ 910 | \$ 910 | \$ - |
| Speech | 498 | 351 | 88 | 761 |
| Vocal | 2,671 | 994 | 196 | 3,469 |
| Instrumental | 552 | 11,619 | 11,785 | 386 |
| Flags | 1,114 | 1,281 | 2,284 | 111 |
| Music Resale - Elem. | 83 | 696 | 679 | 100 |
| Cleaning | 2,388 | 3,310 | 1,282 | 4,416 |
| Annual | (428) | 5,462 | 5,156 | (122) |
| FFA | 646 | 22,472 | 24,330 | (1,212) |
| Student Council | 2,083 | 1,196 | 1,205 | 2,074 |
| Interest | 1,491 | 210 | 225 | 1,476 |
| Pictures | 518 | 560 | 337 | 741 |
| Prom Party | 674 | 6,365 | 6,439 | 600 |
| Miscellaneous | 834 | 2,941 | 2,844 | 931 |
| School Fund/Concessions | 8 | 20,231 | 20,239 | - |
| National Honor Society | 71 | 351 | 226 | 196 |
| Volleyball/Coach | 241 | 874 | 670 | 445 |
| Football/Coach | 517 | 1,204 | 579 | 1,142 |
| Wrestling/Coach | 650 | 1,124 | 900 | 874 |
| Girls Basketball/Coach | 894 | 686 | 245 | 1,335 |
| Boys Basketball/Coach | 120 | 526 | 70 | 576 |
| B/G Golf/Coach | 369 | 401 | 119 | 651 |
| Girls Track/Coach | 623 | 281 | 60 | 844 |
| Boys Track/Coach | 277 | 526 | 222 | 581 |
| Graduates | (132) | 198 | 66 | - |
| Seniors | 199 | 19,839 | 20,027 | 11 |
| Juniors | 2,504 | 9,987 | 10,478 | 2,013 |
| Sophmores | 790 | 555 | 790 | 555 |
| Freshmen | 360 | 529 | 360 | 529 |
| 8th Grade | 306 | 428 | 306 | 428 |
| 7th Grade | 215 | 180 | 215 | 180 |
| Elem. Miscellaneous | 9,962 | 19,648 | 18,824 | 10,786 |
| Outdoor Classroom | - | 4,576 | 2,894 | 1,682 |
| Elem. Science Club | - | 480 | - | 480 |
| Elem. Pop | (216) | 1,675 | 1,316 | 143 |
| Elem. Basketball | 659 | 510 | 393 | 776 |
| Pop | 1,608 | 9,152 | 5,563 | 5,197 |
| Miscellaneous Athletics | 9,558 | 76,386 | 66,333 | 19,611 |
| Cheerleaders | 2,218 | 2,865 | 3,081 | 2,002 |
| Lock | 65 | - | - | 65 |
| Softball Concessions | 3,216 | 4,840 | 4,167 | 3,889 |

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|----------------------|---------------------------------|------------|--------------|---------------------------|
| Baseball Concessions | \$ 2,099 | \$ 6,108 | \$ 3,914 | \$ 4,293 |
| Student Trainers | 964 | 477 | 1,186 | 255 |
| | | | | |
| Total | \$ 51,269 | \$ 243,004 | \$ 221,003 | \$ 73,270 |

See accompanying independent auditor's report.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

| | Modified Accrual Basis Years Ended June 30, | | | |
|---|--|---------------------|---------------------|---------------------|
| | 2004 | 2003 | 2002 | 2001 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 2,230,456 | \$ 2,246,711 | \$ 1,944,152 | \$ 1,731,384 |
| Tuition | 165,222 | 165,503 | 178,179 | 144,157 |
| Other | 306,186 | 328,707 | 290,672 | 287,409 |
| State sources | 1,986,351 | 2,110,772 | 1,898,744 | 2,035,488 |
| Federal sources | 158,670 | 145,474 | 100,551 | 90,054 |
| Total revenues | <u>\$ 4,846,885</u> | <u>\$ 4,997,167</u> | <u>\$ 4,412,298</u> | <u>\$ 4,288,492</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 1,906,729 | \$ 1,871,558 | \$ 1,752,525 | \$ 1,761,225 |
| Special instruction | 506,763 | 485,392 | 417,896 | 324,963 |
| Other instruction | 508,171 | 550,928 | 510,316 | 492,333 |
| Support services: | | | | |
| Student services | 103,027 | 99,394 | 104,834 | 100,687 |
| Instructional staff services | 45,545 | 53,845 | 75,141 | 61,659 |
| Administration services | 445,836 | 456,026 | 429,074 | 409,150 |
| Operation and maintenance of plant services | 315,983 | 297,915 | 276,320 | 316,482 |
| Transportation services | 355,296 | 222,324 | 195,469 | 232,269 |
| Non-instructional programs | 5,000 | 3,632 | 4,108 | 1,978 |
| Other expenditures: | | | | |
| Facilities acquisition | 122,873 | 103,566 | 60,097 | 90,707 |
| Long-term debt: | | | | |
| Principal | 265,000 | 245,000 | 145,000 | 150,000 |
| Interest and fiscal charges | 134,523 | 153,808 | 246,325 | 206,146 |
| AEA flowthrough | 155,455 | 166,524 | 164,205 | 169,967 |
| Total expenditures | <u>\$ 4,870,201</u> | <u>\$ 4,709,912</u> | <u>\$ 4,381,310</u> | <u>\$ 4,317,566</u> |

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
North Mahaska Community School District:

We have audited the financial statements of North Mahaska Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether North Mahaska Community School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about North Mahaska Community School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Mahaska Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-04 and I-C-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04 and I-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of North Mahaska Community School District and other parties to whom North Mahaska Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of North Mahaska Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
September 10, 2004

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- I-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, posting of the cash receipts to the cash receipts journal, signing of checks, recording of disbursements, and preparing the bank reconciliation were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Our limited number of business office employees does not allow us to completely segregate duties, however, we will investigate available alternatives and implement where possible.

Conclusion – Response accepted.

- I-B-04 Disbursements – Out of forty disbursements tested, two were not supported by an invoice or receipt at the time of payment.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation prior to the disbursement being made.

Response – We will make sure that future disbursements are properly supported.

Conclusion – Response accepted.

- I-C-04 Bank Reconciliations – We noted that bank reconciliations for the Special Revenue, Physical Plant and Equipment Levy, Capital Projects, and Debt Service Funds were not performed and reconciled to the general ledger during the year ended June 30, 2004. However, a list of outstanding checks was maintained.

Recommendation – All bank accounts should be reconciled each month.

Response – Bank reconciliations for all accounts will be done monthly in the future and tied to the general ledger.

Conclusion – Response accepted.

- I-D-04 Nontimely Deposit – Out of twenty receipts tested, one was not deposited to the bank timely. This was a receipt that was held by the recipient for over one year before being given to the Board Secretary for deposit.

Recommendation – Receipts should normally go directly to the Board Secretary. All receipts should be deposited as soon as possible to safeguard the asset and avoid possible irregularities and to earn the interest revenue on the public funds.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

I-D-04 Nontimely Deposit (continued)

Response – We will ensure that the Board Secretary receives all receipts on a timely basis so that they are deposited timely.

Conclusion – Response accepted.

NORTH MAHASKA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.
- II-C-04 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions – We noted no business transactions between the District and District officials or employees.
- II-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

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